WESTPEAK RESEARCH ASSOCIATION

Barnes & Noble, Inc. (NYSE:BKS)

Retail - Specialty Retail

A New Page in an Evolving Industry

March 26th, 2018

Founded as a small college bookstore in 1965, Barnes & Noble ("BKS" or "the Company") has since become the world's largest bookseller. The Company currently owns 630 retail locations, operates an eCommerce website, and handles NOOK, one of the largest digital bookstores. BKS offers a wide selection of products including: books, vinyl, collectibles, movies, and other digital content.

The Uncertain Future

With the continuation of disappointing financial results and the rise of online competitors, many believe that the recent performance of BKS is signalling the end of brick-and-mortar stores. Although it is unlikely BKS will become the business it once was, Barnes & Noble is seeking to innovate and reinvent the customer experience their business offers with the introduction of new concept stores across the country. Along with its potential upside lies a lack of near term visibility on the success of their initiatives; therefore, the uncertainty regarding BKS is high. With such unpredictability on the future of the Company, it will be appropriate to remain cautious of the risks of investing in Barnes & Noble. Thus, it is fair to say that the current price is a proper reflection of the value of the business.

Valuation

Utilizing a discounted cash flow analysis and a comparable company analysis, weighted at 70% and 30%, respectively, we have determined a target price of $5.25. Since we believe that the market has priced the Company fairly, we will recommend a **hold** rating on BKS.

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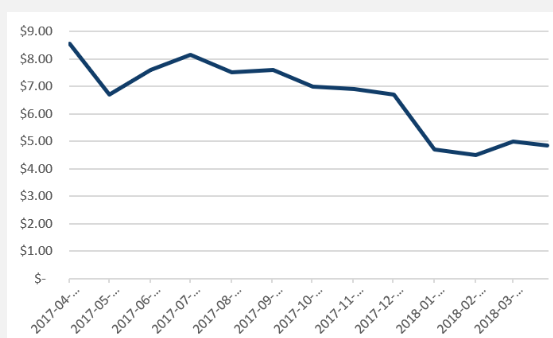
Equity Research	United States
Price Target	**USD$ 5.25**
Rating	Hold
Share Price (Mar.26 Close)	USD$ 5.00
Total Return	5.0%

Key Statistics	
52 Week H/L	$9.45/$4.10
Market Capitalization	$351.8M
Average Daily Trading Volume	1.62M
Net Debt	$59.8M
Enterprise Value	$411.6M
Net Debt/EBITDA	0.5x
Diluted Shares Outstanding	72M
Free Float	81.9%
Dividend Yield	13%

WestPeak's Forecast

	2018E	2019E	2020E
Revenue	$3.65B	$3.57B	$3.49B
EBITDA	$119M	$126M	$125M
Net Income	-$118M	$8.1M	$9.0M
EPS	-$1.62	$0.11	$0.12
P/E	N/A	47.5x	43.5x
EV/EBITDA	3.2x	3.1x	3.1x

1-Year Price Performance



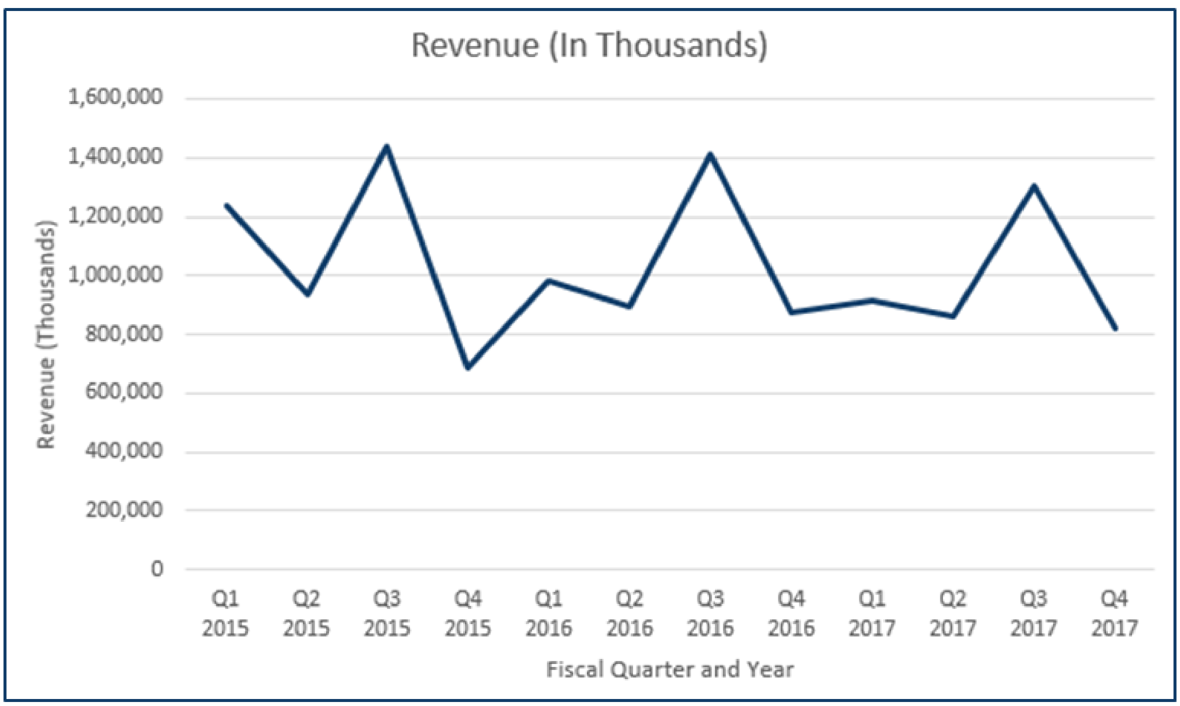
Business Overview/Fundamentals

The Company

Barnes & Noble is the world's largest bookseller, operating in 630 locations across all 50 states. The Company offers books, educational products, toys and games, and digital media content through its multi-channel distribution platform. BKS retail stores provide a unique experience for customers with their built-in cafés and community hosted events. With over 100,000 activities held annually, Barnes & Noble stores have become community centres for people across America. The Company's mission is to explore and innovate the definition of 'experiential retailing'.

The Company's retail segment also includes Sterling Publishing (SP). Acquired in 2003, SP is a publisher centralized on nonfiction titles and acts as a North American distributor for a variety of other domestic and international publications. Presently, the company has over 5,000 books in print. As reported by the Wall Street Journal, BKS placed Sterling Publishing for sale in 2012 as the Company sought to focus on its core business and expanding NOOK (BKS's e-reader brand). Unfortunately, negotiations were never finalized and NOOK has not been up for sale since.

As with many, the business' sales are highly seasonal and dependent on blockbuster releases. Major surges of revenue occur during their third fiscal quarter (holiday season) and the announcements of hot-sellers such as the Harry Potter series. This was indicated by their FY2018 Q2 results as BKS reported a fall of 6.3% in comparable sales; the Company attributed this decline to the absence of a popular release.



Source: Annual Reports

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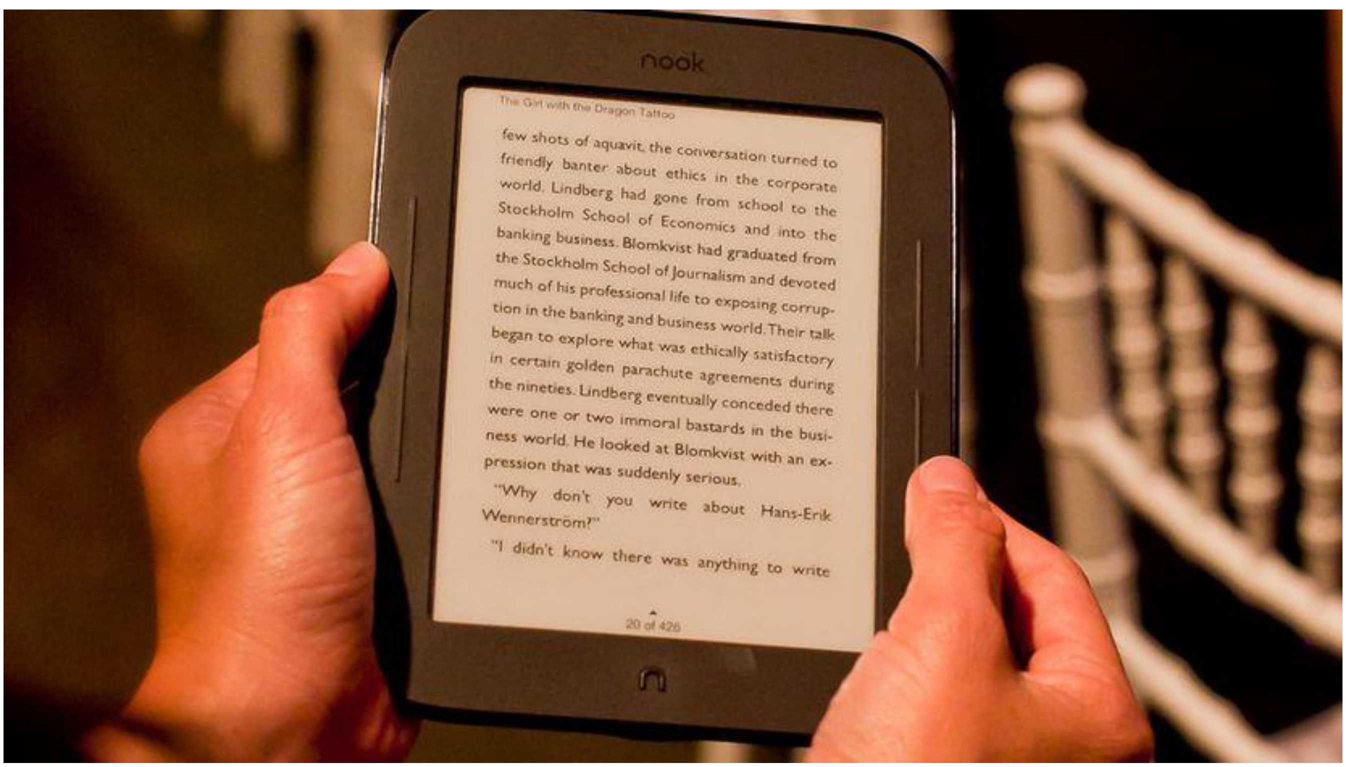
NOOK

Founded in 2009, NOOK provides customers the ability to purchase and read magazines, newspapers, and books on any device. The NOOK Store offers over 4.5 million selections which can be accessed through their free reading app or NOOK eReaders. Barnes & Noble launched NOOK in hopes to compete against Amazon's Kindle, but their entry into the digital market proved to be unsuccessful. The operation eventually became costly and ultimately led to large losses. NOOK sales in the fiscal year 2017 dropped by 23.4% compared to 2016.

In 2014, BKS sought to revive their digital business by partnering with Samsung Electronics. Tablets produced by Samsung are co-branded with NOOK Digital and sold through BKS retail stores. Through their partnership, Barnes & Noble handed the responsibility of hardware design to Samsung as the Company wished to focus its efforts on developing the NOOK software and content.

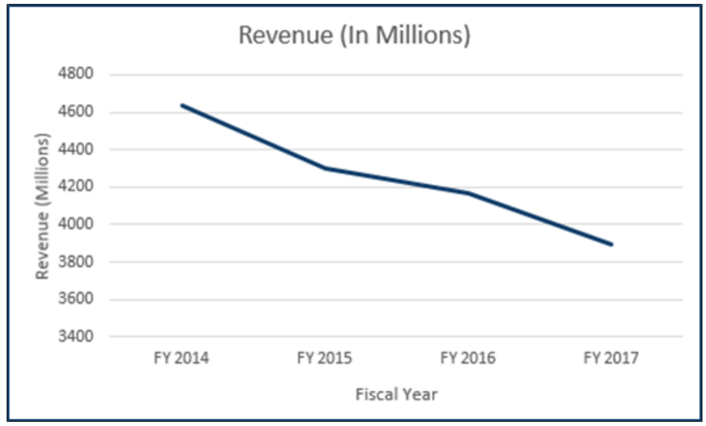
Presently, the Company shows little interest in expanding their tech business. BKS is no longer selling their eReaders through their retail partners and has shifted their NOOK displays to the corners of their stores. Furthermore, Barnes & Noble's agreement with Microsoft to sell eBooks on the Windows platform has since been cancelled. Despite a lack of interest in improving upon NOOK, Barnes & Noble is remaining committed to maintaining its omni-channel service.



Source: cnet.com

Declining Sales and Revenue Breakdown

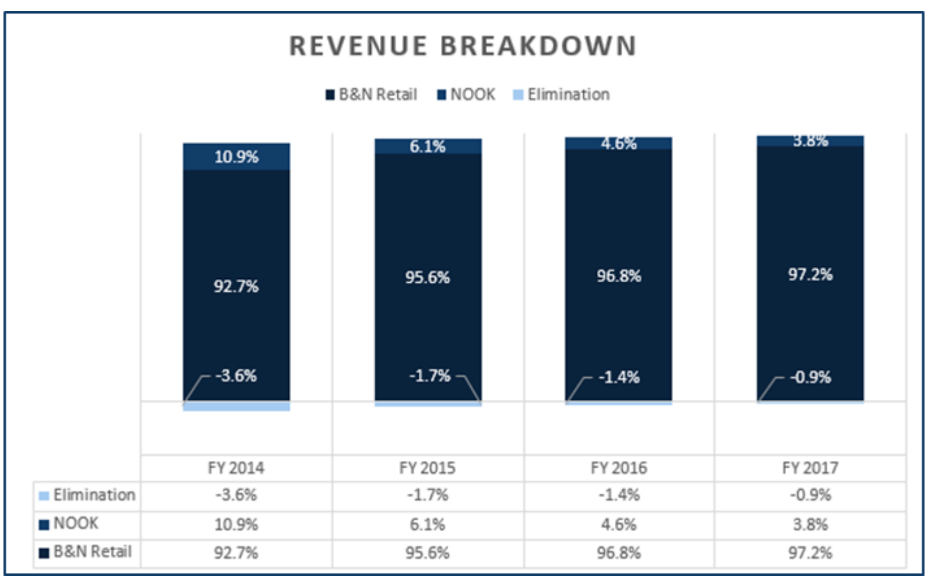
With the ease and convenience of online shopping, sales for brick-and-mortar stores have suffered greatly within the past years; Barnes & Noble is no exception. As shown in the accompanying graph, the Company has been facing a steady decline in revenue due to low store traffic and online sales. The latest quarterly report sets the 15th consecutive quarter of negative revenue growth. These events have inevitably forced Barnes & Noble to continue to close retail locations year after year.



Source: Annual Reports

BKS's revenue is broken down into two segments: Barnes & Noble Retail and NOOK. Over the past four fiscal years, the percentage of sales received by the Company's digital business has been declining. NOOK's shortcomings stem greatly from its inability to compete with Kindle in eReader sales. Since its peak in 2012, NOOK has lost over $1.6 billion dollars in revenue. Sales have consistently fallen and the losses do not seem to stop in the near future. The Company has reduced its losses through cutbacks. BKS continues to maintain NOOK, but there is a strong potential that the Company will decide to cut its losses and sell the business.

Despite a weakness in digital sales, the Company continues to improve upon book sales and mitigate losses with the help of cost reductions. Going forward, the Company has shown a strong desire on focusing on its retail segment (retail stores, Sterling Publishing, and its eCommerce site) as BKS plans to restore and maintain its retail footprint.



	FY 2014	FY 2015	FY 2016	FY 2017
Elimination	-3.6%	-1.7%	-1.4%	-0.9%
NOOK	10.9%	6.1%	4.6%	3.8%
B&N Retail	92.7%	95.6%	96.8%	97.2%

Source: Annual Reports

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Dividends

Despite the pessimistic outlook for the Company, BKS continues to pay an attractive dividend yield of 13%. They have announced $0.15 dividends in the past thirteen quarters, but many are skeptical if the trend will continue. The payout ratio of Q2 of this fiscal year was 2.61, which has certainly left investors doubtful of its sustainability. BKS will most likely reduce this yield going forward as they will require a greater cash flow to fund their strategic business plans. We believe its dividend payouts is a poor use of their capital which further places the Company at risk; especially considering their current difficulties. However, the Company's board actively reviews its dividend policy on a quarterly basis, therefore, it is subject to change at their discretion.

Depleting Number of Store Locations & New Concept Stores

The once grand fleet of BKS stores has seen a significant drop in the past decade. Due to the combination of declining sales and high overhead costs, the Company has been forced to close locations around the country. With BKS's eyes set on downsizing its stores and replacing older locations, it is relatively safe to expect more closings in the years to come. Over the next five years, BKS will have over 500 leases up for renewal and will continue to search for new potential markets in order to replace older stores. Although the Company plans to continue this shift, we can assume the number of stores to stabilize in the future.

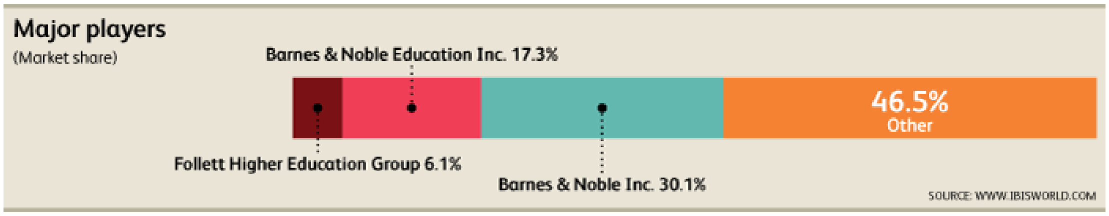
Source: Annual Reports

While BKS has been closing locations recently, the Company has also begun to roll out its new concept stores as of late 2016. In part of their long-term growth strategy, BKS has opened several new stores and restaurants in order to test the market with intentions to replace its older and costly fleet. More information on these concept stores will be discussed later in the report.

Industry Analysis

Industry Landscape

With the growing changes in consumer purchasing behavior, the industry is experiencing a high level of competition physically and online. This trend has inevitably forced companies to compete on pricing and selection for in-store traffic. In the past 5 years, e-commerce sales have grown 13.4% each year; book sales are a large portion of this statistic. As reported by the Codex Group, in 2014, 41% of new books and 67% of e-books were purchased from Amazon alone. This places a great strain on many businesses in the industry. Presently, BKS still holds a significant portion of the market share in the book industry in America at 30.1%.



Source: IBISWorld.com

Capital Intensity

The book store industry has a relatively low capital intensity. According to IBISWorld, for each dollar spent on wages, industry operators will spend $0.09 on capital investment. A large portion of capital spent by companies in the market are on technological assets such as computers and scanners to improve in-store efficiency. It is fair to assume the percentage spent on technological assets will increase in the future as the world becomes more digitized. However, presently, the industry remains fairly labor intensive as these companies rely on customer service to drive sales.

Revenue Volatility

As with all retailers, the book store industry's sales are vulnerable to alterations in disposable income which may arise from changes in the unemployment level, interest rates, and consumer expectations. Despite the growth and strengthening of the American economy from 2012-2017, the industry has seen a decline in revenue. Going forward, it is expected that companies will see an annual 3.8% decrease in sales. The reason for this lies in the popularity of online shopping and the industry becoming more competitive in recent years. All in all, the industry's revenue volatility is moderate.

Year	Revenue $ million	Growth %
2002	22,128.80	0
2003	22,726.00	2.7
2004	23,159.20	1.9
2005	22,547.70	-2.7
2006	21,932.00	-2.7
2007	21,540.10	-1.8
2008	20,722.20	-3.8
2009	19,135.50	-7.7
2010	18,323.80	-4.3
2011	16,303.10	-11
2012	14,485.20	-11.2
2013	13,378.30	-7.7
2014	12,919.50	-3.4
2015	12,391.20	-4.1
2016	12,379.60	-0.1
2017	12,011.50	-3

Source: IBISWorld.com

The Future of the Retail Industry

The outlook for brick-and-mortar stores faces little optimism as it deals with the disruption of online shopping. The rise of the digital age has placed major pressure on the future of retail stores everywhere, which has left people wondering where the direction of the industry is heading. Although many are signalling for the so-called "retail apocalypse", it is highly unlikely that we are seeing the final years of the sector. The retail landscape is not dying but evolving. Today, success in the retail industry is highly dependent on a firm's ability to adapt its model and become more customer-focused.

In the future, we can expect many businesses to centralize their efforts on redefining the 'consumer journey' (how a consumer shops). Within the coming years, retail stores will need to optimize the customer experience they offer to improve store traffic and sales. Those who are able to innovate and strengthen the shopping experience will undoubtedly regain traction. Although the objective for retailers is clear, it is far from simple.

Entering into 2018, the industry will certainly see its fair share of businesses integrate technology in and outside of their stores. As digital devices have become a part of everyday life, retailers will seek to incorporate an omni-channel service to improve the convenience of retail shopping. Above all, we can expect firms to begin including data mining into their operations in an effort to observe and anticipate consumer behavior.

All in all, it is fair to say that the retail industry is revolutionizing considerably rather than dissipating away. Even tech-giants such as Amazon have begun opening its own retail shops as well as recently purchasing Whole Foods in an effort to grow its physical operations. Although there still lies a space for retailers, the success of these businesses will be dependent on their capacity to adapt to changes in the industry as well as the macro environment.

Rising Competition

Despite the mass closing of retail stores across the US, the retail industry has become more competitive nonetheless. Many of BKS's former rivals including Book World have struggled greatly, but the Company is set to face new competitors like Indigo Books and Music. Debuting its first store in New Jersey, Indigo plans to expand its operations over to the US markets. In the next two years, the firm is aiming to open five new locations but will re-evaluate as customer feedback rolls in.

In contrast to other retailers, Indigo has shown great resistance to the rise of Amazon as its business continues to expand. The company's decision to deviate from solely selling books to general merchandise proved to be a successful approach to surviving the downfalls of the retail industry. Although Indigo is a household brand for Canadians, the firm's greatest adversity will be in increasing their brand awareness among Americans. While it may take years for Indigo to have a severe impact on Barnes & Noble's business, their entrance into the market should not be underestimated and the Company should remain vigilante of their rising competitor.

Catalysts

Downsizing Retail Locations

Barnes & Noble's CEO, Demos Parneros, has provided a detailed plan and initiative in downsizing the Company's retail locations. With the average retail store at 26,000 square feet, Barnes & Noble hopes to reduce its future stores by more than half. Currently, 10,000 square feet prototypes have been set-up in Dallas and Virginia in hopes to create a more efficient and aesthetically pleasing experience for customers. These smaller stores will have a concentrated selection of products but will almost remain identical to its larger peers. Fortunately, the Company's retail locations are held on short leases which allows Barnes & Noble to close or downsize stores as needed. In doing so, the Company will have the opportunity to achieve higher inventory turnover and reduce the risk of merchandise surplus.

Narrowing Product Lines and Selection

A common sight in BKS stores is an abundance of unsold merchandise. A large portion of BKS's quarterly losses has been attributed to an overflow of products being removed at discount prices. Going forward, the Company will seek to narrow down their product lines in non-book categories which is aligned with their intention to reduce store sizes. This change will aid in their ability to implement their desired streamline inventory management and improve their bottom line.

Although this change may enhance the efficiency of their stores, this strategy may potentially harm the Company in the long-run. By placing a greater emphasis on its book sales, Barnes & Noble will be forced to directly compete against Amazon; therefore, BKS will need to rely heavily on its ability to provide an in-store experience that will match the convenience of online shopping. As aforementioned, one of BKS's competitors, Indigo Books and Music, who is facing a similar dilemma has taken the opposite action. Indigo has shifted its focus from book sales to general merchandise. This action has allowed the business to avoid the disruption of Amazon. Therefore, whether or not narrowing their product lines will benefit the Company is yet to be seen.

Innovating the In-Store Experience

In hopes to regain traction for their retail locations, BKS has announced major changes to their stores in an initiative to enhance the customer experience they provide. Among these changes include: full-service restaurants and improvements to the benefits their membership program offers. As denoted by the CEO, these initiatives are built to capitalize on the strength of retail: customer experience. With the disruption of online competitors, BKS is seeking to innovate and reimagine how customers will interact with their stores in the future.

In June of 2016, BKS announced its plan to launch concept stores around the country called 'Barnes & Noble Kitchen'. The BKS Kitchen are in-store eateries which allow diners to explore over 17,000 titles while enjoying the service of appetizers, entrees, and alcoholic beverages. To build on this initiative, the Company plans to replicate the same community atmosphere as their retail stores with the addition of events such as wine tastings, book signings, and chef appearances. So far, the feedback for BKS's new full-service restaurants has been strongly positive. With five locations open to date, the Company intends to evaluate customer feedback and look to open more locations in the future.

Source: gopalladio.com

Beyond the new concepts added to their business model, BKS is looking to improve upon its current operations as well. The Company's goal for the upcoming years is to vastly expand their membership program. This program has allowed BKS to track consumer trends, drive-in stronger traffic, and increase customer spending; thus, it will be essential to grow its membership base going forward. To build on this in the years to come, the Company is aiming to establish new membership tiers, integrate a kid's club program, and link in-store purchases to discounts for their café and restaurants.

In consideration of all the Company's plans for long-term growth, its success will ultimately hinge on its ability to create a unique in-store experience. Thus, we believe their goals on expanding 'Barnes & Noble Kitchen' and their membership program is the right direction for the Company. In light of the disappointment in their digital operations, we believe it is in their best interest to allocate their resources into acting on their strengths of a large retail footprint and brand name to drive in sales, rather than attempting to compete with Amazon's Kindle.

Potential Acquisition Target

On November 16th 2017, an offer for BKS to go private rose share prices by a striking 16%. The activist investor, Sandell Asset Management (SAM), gave an offer projecting an equity value of $650MM; a $100MM over the market cap at the time. The CEO of SAM believes BKS is heavily undervalued, which in turn, makes an attractive purchasing opportunity for the investor. This valuation would give a price of $9 per share; BKS shares closed at $6.60 on the day of the news. The difference in share prices display the uncertainty investors have surrounding the agreement.

As indicated by the prices, Chairman, Leonard Riggio displays little interest in taking Sandell's deal as he views the agreement as 'bona fide' and is unwilling to hand over his 11.81% stake in BKS. Despite his doubt surrounding the agreement, the possibility of BKS being acquired is still plausible for the future. We believe that if Barnes & Noble's turnaround strategy fails to work, the Company will have no other option than to strongly consider privatizing their business.

Management Team

Demos Parneros – Chief Executive Officer

With the fifth CEO in four years, Barnes & Noble newly named, Demos Parneros, as the new Chief Executive in hopes to turn the company profitable. Having over 30 years of experience in retail-management, Parneros is undoubtedly qualified to approach the challenges the business faces. The new CEO plans to bring significant changes to the Company by downsizing store locations, reducing non-book merchandise, and expanding its membership program within the coming years. Although Parneros holds a small portion of the shares outstanding (0.37%), his incentives and interests appear to align with the business's shareholders.

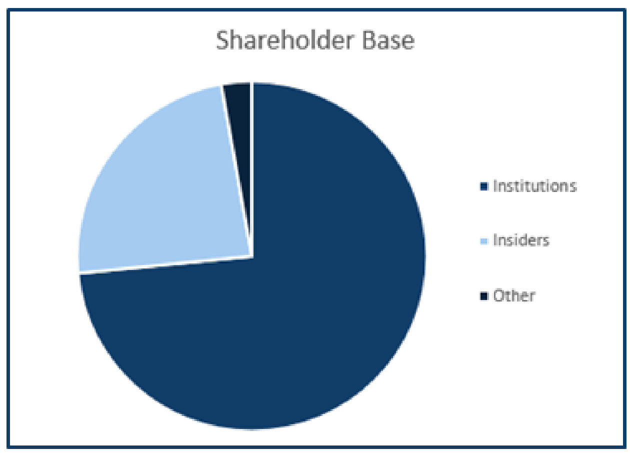
Allen W. Lindstrom – Chief Financial Officer

Allen W. Lindstrom joined Barnes & Noble in 2007 as VP Corporate Controller, and since July 2013, was named the Chief Financial Officer. Prior to his commitment to the Company, he held occupations at Liberty Travel, Inc. as CFO and several director-level positions at Toys 'R' Us, Inc. With such an extensive background in retail, it is fair to say that Lindstrom is highly experienced and competent to take on the responsibilities of CFO for the Company.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

As of the latest quarter, there are 72,512,722 shares outstanding. A substantial percentage of the shares are held by institutions including Blackrock Inc. (10.23%) and Dimensional Fund Advisors LP (8.43%). In total, 73.45% of shares are owned by institutions, followed by insiders at 23.73%. The largest inside share holder is Leonard Riggio (Chairman) with a holding of 11.81%. The large holding by institutional investors and the Chairman are a strong indication of their belief in the Company's plan to innovate and grow in the future. Furthermore, the high inside ownership confirms that the incentives of the management are in line with its shareholders.



Source: CAPIQ

Liquidity

The average daily trading volume for BKS in the last 3 months is 1.47MM shares. The liquidity of BKS is on the higher end for stocks with a similar market cap size as Barnes & Noble. Due to the high trading volume in the past, we believe BKS poses a low liquidity risk for investors.

Valuation

Discounted Cash Flow - Assumptions

DCF: For our analysis, we used a terminal EV/EBITDA exit multiple of 2.6x; concluding at a share price of $4.64.

Revenue: Revenue growth is expected to decline in the mid-single digits (6%) for fiscal year 2018 due to the recent report of poor holiday sales. Going forward in a more stabilized industry coupled with an increase in consumer spending, revenue growth is forecasted to decline in the lower single-digits (2%). We have forecasted conservatively as BKS is relatively early in its turnaround strategy. Revenue in the model was driven segmentally.

CAPEX: Capital expenditure is expected to be $90MM in FY2018 as the Company has recently opened 2 new stores, while closing 4 in the process. We forecast CAPEX to decrease over the upcoming years as they seek to close older and unprofitable stores and replace them with smaller locations to reduce costs.

Dividend: We expect similar dividends to continue throughout the coming years which is in line with its previous quarters. Despite the historical trend, the high payout ratio signifies that the dividend is not sustainable in the long-term future. As aforementioned, the dividend policy is actively reviewed by the Company's board; therefore, it is difficult and speculative to assume changes in the dividends.

COGS and SG&A: BKS is seeking to improve its COGS and SG&A within the coming years. With the introduction of more efficient stores and a streamline inventory management, we have assumed the COGS and SG&A as a percentage of revenue to decrease. Furthermore, the Company has recently implemented a new labor model to alter staffing based on needs. The Company expects to realize its benefits starting in FY2019.

WACC: Our weighted average cost of capital (WACC) is 10.9%. The calculation for the WACC took into account a cost of debt of 3.4% and a cost of equity of 11.9%. This was derived from a risk-free rate of 2.8% (Bloomberg), an equity beta of 1.24 (Bloomberg), and an effective tax rate of 12.9% (CapIQ).

Comparable Analysis

The companies selected for the comparable analysis were based on similarities in market cap, industry sector, and their sensitivity to macro changes. We believe these factors are essential characteristics to BKS and thus, have chosen businesses that reflect the situation the Company faces presently. The analysis indicated a share price of $6.58 with the median and mean EV/EBITDA at 4.4x. The following peer group were utilized for the comparable analysis.

Indigo Books & MUS (TSE:IDG)

Indigo Books & Music, Inc. was founded in 1940 and acts as a book, gift, and specialty toy retailer in North America. The business operates 89 superstores under the banners: Chapters and Indigo, and 123 small format stores under the banners: Coles, Indigospirit, SmithBooks, and The Book Company. Although Indigo operates centrally in Canada, the company is seeking to expand its business to the U.S. in the coming months.

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Vitamin Shoppe, Inc. (NYSE:VSI)

Vitamin Shoppe, Inc. is a speciality retailer and manufacturer of nutritional products sold internationally. The business operates in three segments: retail, direct, and manufacturing. Among its products include: vitamins, sports nutrition, and other health and wellness products. It operates in 775 retail stores across the world.

Barnes & Noble Education, Inc. (NYSE:BNED)

Barnes & Noble Education, Inc. is a spinoff of BKS and operates bookstores for post-secondary campuses. The business operates in two segments: Barnes & Noble College and MBS Textbook exchange. Its bookstores offer general merchandise, course materials, and digital content. BNED operates in 769 physical stores and 712 virtual bookstores.

Hibbett Sports, Inc. (NASDAQ:HIBB)

Hibbett Sports, Inc. is a retailer that sells sporting goods including athletic footwear, sports equipment, and related accessories; the majority of their revenue is derived from their footwear sales. The business operates in 1080 locations and is headquartered in the U.S.

Recommendation

Barnes & Noble stands at a crossroad in its business' history. With the increasing popularity of online shopping, BKS has been forced to rethink and reshape their Company's identity. Although Barnes & Noble has fallen behind its competitors digitally, the Company has demonstrated that the in-store experience has the potential to match the convenience of online purchases. Due to the current uncertainty surrounding the Company's ability to turnaround its business, we remain cautious and skeptical of its potential for long-term growth.

Presently, we have placed a hold on Barnes & Noble. If we are to see the following improvements in the current condition of the business, we will certainly be forced to re-evaluate our position on the Company.

1. **Improvements in In-store and eCommerce Sales**
   The business' success will hinge heavily on its ability to regain traction both in its physical and digital operations. An increase in same-store and online sales over the next few years would indicate a strong turnaround for the Company and further signify the possibility of a stabilizing industry.

2. **Expanding the Membership Program**
   In order to compete with its competitors such as Amazon, BKS will need to significantly improve and expand its membership program. Barnes & Noble's customer program allows the Company to track consumer trends, increase store traffic, and most importantly, compete with Amazon on its pricing. Since the beginning of FY2018, the business's program has added over 0.5 million new members. If this trend is to continue, we can expect a strong increase in sales over the coming years.

3. **Reduction in NOOK Losses**
   The performance of NOOK in recent years has shown its inability to compete with the Kobo and Kindle platform. Unless we see the introduction of a disruptive business innovation such as a pay-to-read model, the Company will need to significantly reduce its NOOK losses in the next few years.

Risks

Highly Competitive Space

Barnes & Noble faces great adversity in the book business. Major competitors such as Amazon pose a threat to their retail and online business. With the popularity of online shopping, the Company has seen a strong decline in revenue and store traffic in the past years. Since product prices can be found lower online, BKS relies heavily on leveraging the strength of its brand and retail footprint to improve its sales. Beyond the threat of large companies such as Amazon and Wal-Mart, the Company may also experience difficulty in competing against local and independent retailers, drug stores, and variety discounters who sell a collection of similar products.

Supply Chain Risk

Barnes & Noble purchases its products from both domestic and international suppliers. In the last fiscal year, 5 of their largest partners accounted for 65% of the dollar value of merchandise purchased. With such a heavy reliance on a small number of suppliers, the Company has become vulnerable to modifications in agreements and general economic changes. These changes could lead to inventory surplus, quality issues, and raised prices.

Expansion Risk

Barnes & Noble is seeking to turn around the Company's decline with its new business initiatives. BKS will require a large sum of capital to approach its plans. Although management is optimistic that these changes will lead to long-term growth, the uncertainty around the success of these actions is high. If the Company's initiatives are unsuccessful, the future of BKS is subjected to great risk and may hinder the possibility of growth for the future.

Economic Environment

BKS's sales and success is heavily dependent on consumer spending patterns and the overall economic environment. Additionally, the business' sales are also highly seasonal which makes the Company's financial performance reliant on their success in the holiday season. If the economy is to experience a downturn, the Company's potential to accomplish its business initiatives and to regain market share would be improbable.

Appendix 1: Operating Model

Operating Model

	Apr-14	Apr-15	Apr-16	Apr-17	Jul-17	Oct-17	Jan-18	Apr-18	Apr-18	Jul-18	Oct-18	Jan-19	Apr-19	Apr-19	Apr-20	Apr-21	Apr-22	Apr-23
	FY2014	FY2015	FY2016	FY2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	FY2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	FY2019	FY2020	FY2021	FY2022	FY2023
Income Statement																		
Revenue	4,633.3	4,297.1	4,163.8	3,894.6	853.3	791.1	1,231.8	775.4	3,651.6	826.7	773.2	1,211.4	758.7	3,570.0	3,491.0	3,417.4	3,348.2	3,282.7
COGS	3,214.4	2,871.2	2,836.5	2,682.4	599.8	562.4	831.7	535.0	2,529.0	570.4	533.5	823.7	515.9	2,443.6	2,387.8	2,337.5	2,290.2	2,245.4
Gross profit	1,418.9	1,425.9	1,327.3	1,212.2	253.5	228.7	400.0	240.4	1,122.6	256.3	239.7	387.6	242.8	1,126.4	1,103.1	1,079.9	1,058.0	1,037.3
EBITDA	131.8	233.9	150.5	172.2	11.2	(25.0)	127.0	6.2	119.3	20.7	19.3	48.5	37.9	126.4	125.7	123.0	120.5	118.2
Net income	(79.1)	32.9	14.7	22.0	(10.8)	(30.1)	(63.5)	(13.5)	(118.0)	(4.8)	(5.5)	12.3	6.2	8.1	9.0	9.7	9.9	9.7
Earnings per share, basic	$ (1.34)	$ 0.54	$ 0.20	$ 0.31	$ (0.15)	$ (0.41)	$ (0.87)	$ (0.19)	$ (1.62)	$ (0.07)	$ (0.08)	$ 0.17	$ 0.08	$ 0.11	$ 0.12	$ 0.13	$ 0.14	$ 0.13
Cash Flow Statement																		
Cash flow from operating activities	323.9	56.9	114.0	145.2	12.8	(119.3)	214.6	30.1	138.3	31.7	33.6	32.9	30.1	128.4	132.7	129.8	130.6	131.7
Cash used in investing activities	(132.5)	(153.0)	(110.8)	(96.3)	(20.7)	(28.8)	(20.4)	(21.6)	(91.6)	(21.3)	(26.0)	(22.8)	(22.0)	(92.1)	(89.4)	(88.2)	(87.8)	(86.1)
Cash from financing activities	(11.8)	(169.8)	(63.8)	(50.8)	7.9	147.5	(194.0)	(10.9)	(49.6)	(10.9)	(10.9)	(10.9)	(10.9)	(43.6)	(43.6)	(43.6)	(43.6)	(43.6)
Net change in cash	179.7	(265.8)	(60.5)	(1.8)	(0.0)	(0.7)	0.2	(2.4)	(2.9)	(0.4)	(3.2)	(0.8)	(2.8)	(7.2)	(0.2)	(1.9)	(0.8)	2.1
Balance Sheet																		
Total current assets	1,980.4	1,729.3	1,178.4	1,128.0	1,137.0	1,403.6	1,128.7	1,018.9	1,018.9	1,090.2	1,182.5	1,068.8	964.6	964.6	918.2	870.5	818.5	770.5
Total non-current assets	1,557.0	1,500.2	834.4	804.9	798.4	799.1	659.2	654.6	654.6	650.1	650.7	648.2	645.0	645.0	635.1	627.9	623.3	618.8
Total assets	3,537.4	3,229.5	2,012.8	1,932.9	1,935.4	2,202.7	1,787.8	1,673.5	1,673.5	1,740.2	1,833.2	1,716.9	1,609.6	1,609.6	1,553.2	1,498.5	1,441.8	1,389.3
Total current liabilities	1,721.6	1,447.3	1,193.9	1,108.3	1,114.6	1,264.7	1,135.1	1,045.2	1,045.2	1,127.6	1,237.0	1,119.3	1,016.7	1,016.7	994.9	974.0	950.9	932.3
Total non-current liabilities	1,157.1	592.9	215.4	250.3	265.0	421.8	209.6	209.6	209.6	209.6	209.6	209.6	209.6	209.6	209.6	209.6	209.6	209.6
Total liabilities	2,878.8	2,040.1	1,409.3	1,358.6	1,379.6	1,686.5	1,344.7	1,254.8	1,254.8	1,337.3	1,446.7	1,329.0	1,226.4	1,226.4	1,204.6	1,183.6	1,160.5	1,141.9
Total shareholders' equity	658.7	1,189.4	603.5	574.3	555.8	516.2	443.1	418.7	418.7	403.0	386.5	388.0	383.2	383.2	348.7	314.9	281.3	247.4

Appendix 2: Comparable Company Analysis

Comparable Company Analysis

Company	Ticker	Equity Value	Enterprise Value	LTM EV/EBITDA	NTM EV/EBITDA	2017E EV/EBITDA	2018E EV/EBITDA
				EV/EBITDA Multiple			
Hibbett Sports, Inc.	(NASDAQ:HIBB)	448.9	376.1	4.7 x	5.6 x	3.2 x	5.5 x
Indigo Books & MUS	(TSE:IDG)	403.7	164.3	4.5 x	3.2 x	5.2 x	2.6 x
Vitamin Shoppe Inc.	(NYSE:VSI)	98.0	234.4	3.5 x	5.3 x	3.5 x	5.4 x
Barnes & Noble Education, Inc.	(NYSE:BNED)	310.5	401.1	3.1 x	3.4 x	5.1 x	3.3 x
Barnes & Noble		**363.5**	**411.8**	**3.7 x**	**2.6 x**	**2.5 x**	**3.3 x**
Median				**4.0 x**	**4.4 x**	**4.3 x**	**4.4 x**
Mean				**3.9 x**	**4.4 x**	**4.3 x**	**4.2 x**
High				**4.7 x**	**5.6 x**	**5.2 x**	**5.5 x**
Low				**3.1 x**	**3.2 x**	**3.2 x**	**2.6 x**

	EV/EBITDA Implied Price		
Median	$ 8.82	$ 9.01	$ 6.82
Mean	**$ 8.81**	**$ 8.88**	**$ 6.58**
High	$ 11.36	$ 10.89	$ 8.82
Low	$ 6.25	$ 6.60	$ 3.88

Appendix 3: DCF Analysis

Discounted Cash Flow Analysis

	Apr-14	Apr-15	Apr-16	Apr-17	Apr-18	Apr-19	Apr-20	Apr-21	Apr-22	Apr-23
	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023

WACC Calculations

Cost of Equity	
Risk-free rate	2.8%
Expected market return	10.1%
Market risk premium	7.3%
Beta	1.24
Cost of equity	**11.9%**

Cost of Debt	
Pre-tax cost of debt	3.9%
Effective tax rate	12.9%
Cost of debt	**3.4%**

WACC	
Total shareholders' equity	443.1
Total outstanding debt	59.8
Total capitalization	502.9
Cost of equity	11.9%
Cost of debt	3.4%
WACC	**10.9%**

Free Cash Flow

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
EBIT	(37.0)	90.2	14.7	54.3	11.3	24.8	26.4	27.7	28.1	27.6
Less: Tax expense	4.8	(11.6)	(1.9)	(7.0)	(1.4)	(3.2)	(3.4)	(3.6)	(3.6)	(3.5)
Add: Depreciation and amortization	168.8	143.7	135.9	117.9	108.1	101.6	99.3	95.3	92.5	90.6
Less: Capital expenditures	(96.7)	(94.8)	(94.3)	(96.3)	(91.6)	(92.1)	(89.4)	(88.2)	(87.8)	(86.1)
Less: Change in net working capital	82.5	(191.2)	30.0	(19.3)	42.7	18.7	24.5	24.8	28.2	31.5
Unlevered free cash flow	**122.3**	**(63.8)**	**84.3**	**49.6**	**69.0**	**49.8**	**57.4**	**56.1**	**57.3**	**60.0**
Discount factor					0.25	1.25	2.25	3.25	4.25	5.25
Present value of unlevered free cash flow					**4.5**	**45.3**	**45.5**	**40.1**	**36.9**	**34.9**

Discounted Cash Flow Valuations

Perpetuity Growth Method		
Perpetuity growth rate		1.0%
PV sum of unlevered FCF		207.2
PV of terminal value		353.2
Enterprise value		**560.4**
Add: Cash		11.5
Less: Debt		59.8
Less: Other EV adjustments		-
Equity value		**512.1**
Shares outstanding		72.7
Implied share price	$	**7.04**

Current price	$	5.00
Implied price	$	**7.04**
Total return		**40.9%**

Exit Multiple Method
Terminal EV/EBITDA mul
PV sum of unlevered FCF
PV of terminal value
Enterprise value
Add: Cash
Less: Debt
Less: Other EV adjustments
Equity value
Shares outstanding
Implied share price

Current price
Implied price
Total return

	WACC				
	11.90%	**11.40%**	**10.90%**	**10.40%**	**9.90%**
0.60%	$ 6.16	$ 6.48	$ 6.84	$ 7.23	$ 7.67
0.80%	$ 6.23	$ 6.57	$ 6.93	$ 7.34	$ 7.79
1.00%	$ 6.31	$ 6.65	$ 7.03	$ 7.45	$ 7.91
1.20%	$ 6.39	$ 6.74	$ 7.13	$ 7.56	$ 8.04
1.40%	$ 6.47	$ 6.83	$ 7.23	$ 7.68	$ 8.18

	WACC				
	11.90%	**11.40%**	**10.90%**	**10.40%**	**9.90%**
1.6 x	$ 3.55	$ 3.62	$ 3.70	$ 3.77	$ 3.85
2.1 x	$ 4.00	$ 4.08	$ 4.17	$ 4.25	$ 4.34
2.6 x	$ 4.45	$ 4.54	$ 4.64	$ 4.74	$ 4.84
3.1 x	$ 4.90	$ 5.01	$ 5.11	$ 5.22	$ 5.33
3.6 x	$ 5.35	$ 5.47	$ 5.58	$ 5.70	$ 5.83

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